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UNCLAS SECTION 01 OF 02 HANOI 000606

DEPT FOR EAP/MLS, EB/IFD, USAID/ANE, USAID EGAT/EG
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TAGS: EFIN EAID ECON PREL VM
SUBJECT: DPM HUNG SPEAKS ON INFLATION, BANKS AND FISCAL RESTRAINT
MEASURES

Ref: Hanoi 572 (MOF and SBV Discuss Inflation)

¶1. (U) Summary: The Ambassador met with Deputy Prime Minister (DPM) Nguyen Sinh Hung on May 21 to discuss macro-economic issues and the Government of Vietnam's (GVN) plans to address inflation. Hung acknowledged the challenges, but said there were plans to address State Owned Enterprise (SOE) expansion and budget expenditure reform. He conceded that some private banks were lending too much and may go bankrupt or merge, but said the GVN will "try our best not to let that happen" and would not limit the growth of new banks. End Summary.

THE MARCOECONOMIC DPM SPEAKS

¶2. (U) The Ambassador met with Deputy Prime Minister (DPM) Nguyen Sinh Hung on May 21. DPM Hung's portfolio includes monetary and fiscal policy, planning, price controls, customs, banking, securities, statistics, labor, employment and social issues, and the restructuring of SOEs. He supervises the Finance and Labor ministries, the State Bank and the State Capital Investment Corporation. Hung is a member of the Politburo and also chairs the National Council for Monetary Policy. He also oversees ethnic minority affairs. He was Finance Minister from 1996 to 2006.

¶3. (U) Hung started the meeting by noting that both the U.S. and Vietnam are facing economic challenges. He compared the U.S. economy to a "big ship in the sea" whose waves ripple across the world, including in Vietnam, which he considers "a small ship, just starting its journey."

¶4. (U) The DPM went on to note that Vietnam has some advantages that will allow it to weather the current economic storm. The first advantage, he said, is that foreign investors are still interested in doing business in Vietnam. The second is Vietnam's strong export sector, which accounts for a significant portion of the country's GDP. Lastly, Hung said, Vietnam has a stable political and investment environment. He admitted that productivity and efficiency were still not very high, but pointed to the hundreds of new private enterprises and growing foreign investment as signals of Vietnam's potential.

HUNG ON INFLATION

¶5. (U) DPM Hung said he was confident of the GVN's ability to overcome inflation. "The political and administrative leadership would work with the people and businesses to control inflation," he said cryptically. He pointed to the 1997 Asian financial crisis, which was "more tense than now, so we have experience" in these

types of situations. He also cited first quarter registered FDI of eight billion dollars as being on pace to increase over last year's registered FDI of over \$20 billion. Hung encouraged the Ambassador to help make the U.S. the number one foreign direct investor in Vietnam, noting that good U.S. -Vietnam relations were "irreversible."

¶6. (U) The DPM then outlined the GVN's three major tasks: to control inflation, to maintain growth, and to "care for people's lives." He forecasted that economic growth will be around 7 percent in 2008, and that inflation will slow down, but that there may still be difficulties in 2009 before things improve in 2010. Hung added that the GVN is "not very worried" because exports remain strong and, as a rice producer, Vietnam has good food security.

BANKING AND CREDIT GROWTH

¶7. (U) Hung stated that reining in credit growth was necessary to control inflation, but that Vietnam "still needed growth and exports." He conceded that some private banks were lending too much and may go bankrupt or merge, but said the GVN will "try our best not to let that happen." He said the GVN will not limit the creation of new banks but is now using better criteria for establishment of these banks. Furthermore, he added, as the number of businesses and foreign investors in Vietnam increased, Vietnam will need more banks, both foreign and local.

EXCHANGE RATE POLICY

¶8. (U) DPM Hung refused to confirm reports in the local press that
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the Dong trading band would be widened from one to two percent. He reiterated the oft-heard line that the Dong exchange rate will "be flexible to encourage exports" and to allow Vietnam to import commodities that are not produced in-country. The DPM said that in addition to the Council for Monetary Policy, the GVN had recently established a National Committee for Supervision of the Financial Sector to make forecasts and recommendations. The Committee is headed by former State Bank Governor Thuy.

SOE REFORM

¶9. (U) Although Hung acknowledged that SOEs would be limited from expanding into non-core areas, he did not say whether he supported the 30 percent cap proposed by the Finance Ministry (Reftel). Hung added that the GVN was trying to learn from the experiences of other "major international economies" to develop standards for SOE expansion. The DPM also stated that the GVN is encouraging SOEs to identify strategic partners and that this would be an efficient means for foreign investors to "get access to Vietnam."

BUDGET CUTS COMING

¶10. (U) The DPM said that the central and regional governments had been asked to revise their budgets in an effort to trim expenditures. Hung noted that he was still awaiting revised budgets from certain districts, communes, and investment projects, but said the results of the exercise would be reported at this month's cabinet meeting, in late May.

BIOGRAPHICAL NOTES

¶11. (SBU) Hung, who rarely meets with USG officials, was the last of Vietnam's five DPMs to agree to meet with the Ambassador. Throughout the meeting, he avoided being drawn into specifics, relying instead on bureaucratesse to make his points.

COMMENT: A REFORM CYPHER

¶12. (SBU) Comment: Hung seems committed to the idea of SOE reform, but reluctant to divulge details of how the GVN plans to achieve this goal, perhaps because the issue is still under discussion. He seems personally involved in overseeing budget reform efforts, which is a good sign. Not as promising is his position on banks, seeming to imply that protecting bad banks and even encouraging more banks would be a good thing for Vietnam's economic growth. End comment.

MICHALAK